



MANAGEMENT DISCUSSION & ANALYSIS

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The Department is dedicated to maintaining integrity and accountability in all programs and operations. Management, administrative, and financial system controls have been developed to ensure that:

- All programs and operations achieve their intended results efficiently and effectively;
- Resources are used in accordance with the Department's mission;
- All programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable, complete, and timely data is maintained and used for decision-making at all levels.

We believe that the rapid implementation of audit recommendations is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals. We have accordingly instituted a comprehensive follow-up program to ensure that the recommendations are implemented in a timely and cost-effective manner.

Federal Managers' Financial Integrity Act of 1982

STATEMENT ON MANAGEMENT AND FINANCIAL CONTROLS

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that, with the exception of three material weaknesses identified below, the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved.



Donald L. Evans
Secretary of Commerce

During FY 2001, in accordance with the requirements of FMFIA and using OMB and Departmental guidelines, the Department reviewed its management control system. The objectives of our management control system are to provide reasonable assurance that:

- Our obligations and costs are in compliance with applicable laws;
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets; and,
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated by using information obtained from reviews conducted by the General Accounting Office (GAO), the Office of the Inspector General (OIG), and/or specifically requested studies. These reviews ensure that our systems and controls comply with the standards established by the FMFIA. Again this year, the Bureau of the Census and the Bureau of Export Administration were the focus of major reviews by the GAO and the OIG. The GAO and the OIG have also completed major reviews of the Department's IT systems and IT security.

In FY 2001, the Department had three outstanding material weaknesses. They were:

- Inadequate controls in information technology (IT) security;
- Failure to fully implement a departmental continuity of operations plan (COOP); and,
- Non-compliance with federal principles and requirements for a single, integrated financial system.

The first two material weaknesses are new this year. The single, integrated financial system will remain a material weakness until the completion of the Department's systems modernization efforts.

The Department Has Inadequate Controls in Information Technology (IT) Security.

During FY 2001, OIG and GAO reviewed IT security at the Department and identified weaknesses. OIG reviewed the overall IT security program, and specifically reviewed IT security as it relates to the financial systems of the Department. OIG found that the Department's IT security policy was out of date and missing important components because it had not kept pace with recent trends in technology and related security threats. In addition, security for many of the Department's systems had not been adequately planned, and security reviews had not been performed. The Chief Information Officer (CIO) agreed with all of the OIG recommendations, and a number of corrective actions have been initiated.

In its August 2001 report, *Information Security: Weaknesses Place Commerce Data and Operations at Serious Risk (GAO-01-751)*, GAO reported that Commerce information security systems and IT operations need strengthening. GAO examined seven of the smaller agencies of the Department, but the resulting recommendations are being implemented to all applicable situations across the Department. Each of the reviewed agencies has developed and submitted corrective action plans for implementing the recommendations. The most serious weaknesses detected have already been addressed, and the action plans specify additional remedies to be taken in the coming months. As described below, actions are also taken to address the fundamental improvements needed in the Department's IT security policies and procedures to prevent the problems that GAO identified from occurring in the future. Under the Government Information Security Reform Act, the Department is reporting the status of these corrective actions quarterly to the Office of Management and Budget (OMB).

In the past several months, the Department has taken the following actions to strengthen its Department-wide IT Security Program. The Secretary directed all agency heads to establish IT security as a priority. An IT Security Task Force was convened under the oversight of the Deputy Secretary to strengthen IT security management in the Department.

The Task Force was directed to develop a comprehensive IT Security Program for the Department and its operating units and to develop recommendations for action by the Department CIO and operating unit CIOs. This Task Force was comprised of selected CIOs and IT Security Officers from various Department operating units, as well as IT security experts from the National Institute of Standards and Technology, and the Office of the CIO staff. The Task Force also had expert contract support at its disposal. The Task Force performed its work between July and September 2001, and produced a revised IT Security Program Framework, as well as several IT security action alerts on account management, password management, perimeter security, and IT security patch management. The action alerts were issued and provided direction to the operating units on how to resolve the IT challenges. Also, a Compliance Review Working Group was formed to define the basis for reviewing operating unit IT Security Programs and IT systems on a continuing basis.

A contract was awarded to enhance the Department's IT Security Program. The contract supports: completion of a revision of Department IT Security Policy; compliance reviews of Department IT Security Programs (including IT system reviews and penetration testing); development of an IT Security Awareness Program for the Office of the Secretary and other Department operating units; and Computer Incident Response Team (CIRT) support for all parts of the Department that do not already have their own CIRT capability.

Notwithstanding these accomplishments in IT security, the Department still has significant work to perform to ensure a strong IT security posture. Because IT security is pivotal to protecting the Department's data and operations, until this is resolved, it will remain a material weakness for the Department.

The Department Failed to Fully Implement a Continuity of Operations Plan (COOP). The Presidential Decision Directive 67, issued October 21, 1998, relates to enduring constitutional government, continuity of operations planning, and continuity of government. The purpose of this directive is to ensure survival of a constitutional form of government and the continuity of essential federal functions. The Department has not completed its COOP in a timely manner.

In light of the September 11, 2001 events, the importance of such a plan takes on greater significance and we have highlighted it as a material weakness for the Department. COOP planning facilitates the performance of the Department's essential functions during any emergency or situation that may disrupt normal operations. The objectives of a COOP plan are: ensuring the continuous performance of an agency's essential functions and operations during an emergency; protecting essential facilities, equipment, records, and other assets; reducing or mitigating disruptions to operations; reducing loss of life; minimizing damage and losses; and achieving a timely and orderly recovery from an emergency and resumption of full service to customers. An Intradepartmental Task Force has been established to develop the Department's COOPs.

The Department Is Not in Compliance with Federal Principles and Requirements for a Single, Integrated Financial System. Many of the Department's financial systems are seriously outdated and fragmented; they are unable to provide timely, complete, and reliable financial information; they are inadequately controlled; and they are costly and difficult to maintain. Taken as a whole, the systems are not compliant with GAO principles and standards, the requirements of the CFO Act, the Joint Financial Management Improvement Program (JFMIP), or the OMB. A Department-wide integrated financial management system is currently being implemented. Once completed, it will allow the Department to dramatically improve its overall financial management. Until the Commerce Administrative Management System (CAMS) is implemented throughout the Department, it will continue to be exposed to those risks centered on operating multiple, outdated accounting systems.

We have made significant progress in implementing CAMS. At the end of FY 2000, CAMS was implemented at Census and the Office of the Secretary, and was the official grants accounting system of record at the Economic Development Administration (EDA). Additionally, the Minority Business Development Agency (MBDA), the Economics and Statistics Administration

(ESA), Bureau of Economic Analysis (BEA), and Salaries and Expenses for EDA (accounting services provided by the National Institute of Standards and Technology) implemented CAMS during FY 2001. Implementation is currently in process at National Oceanic and Atmospheric Administration. A CAMS pilot was implemented in October 2001 in three line offices, with the remaining NOAA offices scheduled for implementation by October 2002. In addition, Bureau of Export Administration implementation will be completed in October 2002. The National Institute of Standards and Technology, the Technology Administration, and the National Telecommunications and Information Administration are scheduled for completion by October 2003. Full implementation of CAMS within the Department is anticipated by October 2003. In addition, we have implemented a corporate database that integrates financial data from each of our reporting units to permit the preparation of consolidated statements and reports. The consolidated financial statements for FY 2001 were produced from that database.

Though these three material weaknesses exist, the Department is vigorously addressing these challenges and anticipates resolving them within the next two years. In order to improve its overall management, the Department will continue to review its operations to ensure that it acts as an effective and efficient steward of the American people as we compete in a global economy.

Federal Financial Management Improvement Act of 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In FY 1998, the Office of Inspector General found the Department did not substantially comply with these three requirements, mainly due to the inadequacy of its financial systems. In FY 1999, the Department developed a remediation plan to resolve these material deficiencies and subsequently made significant progress with implementation of the plan.

In FY 2001, the only outstanding FFMIA issue is compliance with federal financial management systems. As described in the preceding section (Federal Managers Financial Integrity Act, FMFIA), the Department financial systems lack security controls; are seriously outdated and fragmented; are unable to provide timely, complete, and reliable financial information; are inadequately controlled; and are costly and difficult to maintain. As with our FMFIA non-conformance problems, the Department's noncompliance under FFMIA will be corrected with the implementation of the Core Financial System, Commerce Administrative Management System (CAMS), and the Corporate Database. The Department implemented the Corporate

Database to produce consolidated financial statements from all reporting entities. CAMS has been designed to meet the cost accounting system criteria of Statement of Federal Financial Accounting Standard (SFFAS) No. 4, as well as to be compliant with the financial system requirements of the Joint Financial Management Improvement Program and the SGL. As detailed in the FMFIA section, full implementation of CAMS will be completed by October 2003. An updated remediation plan was forwarded to the OMB in September 2001. The plan will be closely monitored until the Department has achieved full compliance.

Report on Audit Follow-Up

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for Inspector General audits. With this Accountability Report, the Department of Commerce is reporting on audit follow-up activities for the period October 1, 2000, through September 30, 2001.

Audit Follow-Up Activities within the Department

Efforts are underway to update the automated tracking system that has been used to follow the implementation progress of recommendations from the time an audit is resolved with the Office of the Inspector General (OIG) until it is closed or reported as completed by the bureau. When developed, the new system will allow all bureaus to transmit electronically the information that is used to review and close recommendations and to prepare the audit follow-up portion of this Accountability Report. The new system will reduce the time necessary for inputting data and report preparation. The new system was expected to be finalized but has been delayed.

Report Summary and Highlights

At the start of this reporting period, the balance for OIG reports with disallowed costs totaled 58, representing \$13.4 million. (Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government) A total of 32 reports were resolved during the period, with disallowed costs of \$7.5 million, and final action was taken on 29 reports with disallowed costs of \$3.3 million. The balance at the end of the period was 61 reports, representing \$17.5 million.

In the summary table that follows, "funds to be put to better use" refers to any actions made by management to implement recommendations that funds be applied to a more efficient use. Actions taken on these reports are shown in the summary table, which has a beginning balance of 22 reports and funds of \$51.2 million. Nine new reports with funds

totaling \$2.2 million were added during the reporting period and final actions were taken to implement eight reports with funds of \$5.8 million. The closing balance was 23 reports, representing \$47.6 million in funds to be put to better use.

Performance, contract, grant, loan, and financial statement audit reports with nonmonetary recommendations are also indicated in the table. The start of the period shows a balance of 63 audit reports with management decisions on which final action had not been taken. Forty-four new audits were added where management decisions were made, and final action was taken to close 48 audits, for an ending balance of 59 audit reports needing final action.

**Summary of Activity on Audit Reports
October 1, 2000 - September 30, 2001**

	Disallowed Costs		Funds to be Put to Better Use		Nonmonetary Reports	Total
	Reports	Dollars	Reports	Dollars	Number of Reports	Reports
Beginning Balance	58	\$13,393,587	22	\$51,232,470	63	143
Resolved Reports	32	7,491,950	9	2,153,872	44	85
Total Reports	90	20,885,537	31	53,386,342	107	228
Reports Closed	(29)	(3,338,997)	(8)	(5,823,867)	(48)	(85)
Ending Balance	61	\$17,546,540	23	\$47,562,475	59	143

The bureaus are continuing their efforts to implement audit recommendations that are more than one year old. At the end of the reporting period, recommendations included in a total of 76 audits were reported as being unimplemented for more than one year. Although some audits share associated reasons for not having recommendations fully implemented, the reasons for final actions not being taken vary with each audit. For example, if collections for payments are annualized over several years, the audit will remain open until the final collection is made or a debt is paid. Some performance audits have recommendations that mandate construction projects, the completion of which can take several years.

In addition, because audits involve the reporting of funds to be put to better use, these audits will remain open until all work has been completed and the savings can be calculated. This is to ensure accurate reporting of the funds to be put to better use. Program development, implementation of new financial management systems, appeal of audit determinations, and technological enhancements of existing systems can all cause audits to remain open beyond one year. Staff within Departmental Management and individual bureaus staff will continue to monitor these audits and assist, as much as possible, in the implementation process.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires the biennial review of agency fees, rents, charges imposed for services, and other things of value provided to specific beneficiaries as opposed to the American public in general. The objective of these reviews is to identify such activities and, where permitted by law, to begin charging fees. The reviews also support the periodic adjustment of existing fees to reflect current costs or market value, in order to minimize the general taxpayer subsidization of specialized services or things of value, such as rights or privileges, provided directly to identifiable non-federal beneficiaries. The Department conducts a review of its fee programs biennially, with some bureaus conducting annual reviews. Due to a reorganization in one of our bureau's management divisions, their review of user fees was delayed from a due date of April 2001 to a review date of March 2002. Fees relating to this program are not a significant portion of the Department's user fees. In the current review, we noted that all bureaus in most cases adjust their fees to be consistent with the program and with the legislative requirement to recover the full cost of the goods or services provided to the public. As reported in our prior year report, one bureau's program was not in full compliance with the full costing requirements of OMB Circular A-25. However, the bureau concerned is working with the Office of Management and Budget to finalize a waiver for this program.

Reports Consolidation Act of 2000

This Accountability Report is prepared under the authority of the Reports Consolidation Act of 2000. The purposes of the Act are (1) to authorize and encourage the consolidation of financial and performance management reports; (2) to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public; (3) to improve the quality of agency financial and performance management information; and (4) to enhance coordination and efficiency on the part of agencies in reporting financial and performance management information. Among other things, the Act also requires a statement prepared by our Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the Department. The following eight pages were prepared by the Inspector General. We generally concur with the OIG's recommendations and have integrated some of them in our "Looking Ahead" section of this Accountability Report, where we specifically discuss what we deem are the Department's major issues, challenges and concerns, and initiatives and priorities for the future.

Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of Commerce

*The Honorable Donald L. Evans
Secretary of Commerce
Washington, D.C.*

In accordance with the Reports Consolidation Act of 2000, we submit our statement summarizing the most crucial management and performance challenges facing the Department of Commerce, to be included in the Department's Accountability Report for FY 2001.

The Office of Inspector General, in carrying out its primary responsibilities—promoting economy, efficiency, and effectiveness and detecting/preventing fraud, waste, and abuse in Department programs and operations—works to support accountability Department-wide. Each year, we identify the "Top 10 Management Challenges" facing Commerce on the basis of (1) their importance to the Department's mission/the nation's well-being, (2) their complexity, (3) the size of expenditures involved, or (4) the need for management improvements. Our aim in highlighting these challenges is to provide support to Commerce officials in formulating policy and providing leadership. Given the diverse nature of the Department, many of the issues we deemed to be among the top 10 challenges at the end of 2001 cut across bureau and program lines.

Details about the current status of agency efforts to address these challenges, as well as OIG's review and monitoring of those endeavors, appear in the Inspector General's September 2001 *Semiannual Report to the Congress*.

① Successfully Implement a Department-Wide Financial Management System

A significant internal control weakness, noted in the Secretary's annual reports to the President for more than 10 years, is the lack of a Department-wide, integrated financial management system. Initial requirements definitions for the Department-wide financial management system began in 1992. Progress was slow but has accelerated in the past two years. In June 1998, pilot implementation of CAMS was completed at the Census Bureau. CAMS is now the official accounting system for Census and the operating units cross-serviced by NIST, including the Office of the Secretary and OIG.

The current plan is to complete implementation of CAMS at NOAA by October 2002, at which time it will begin cross-servicing the Bureau of Export Administration. NIST will complete implementation a year later when it adds the National Telecommunications and Information Administration to the list of agencies it cross-serves. By October 2003, Commerce expects all of its operating units to be using financial management systems that comply with federal requirements and integrate with the Department-wide financial database. (Twelve units will use CAMS. The remaining three—ITA, USPTO, and NTIS—plan to be cross-serviced by the Department of the Interior, though ITA and NTIS are exploring alternatives.)

In our March 2001 semiannual report, we expressed concern about the Department's ability to (1) manage CAMS development and maintenance, (2) complete the Commerce-wide financial database in a timely manner, and (3) determine the efficiency and economy of operating CAMS at four locations. During this semiannual period, we found that the Department has addressed some of these concerns. It has assigned liaisons to work with the operating units, taken responsibility for defining Department-wide financial reporting requirements and year-end closing procedures, and instituted a study of best practices for CAMS operations and maintenance.

At the same time, we have recently noted concerns with CAMS contract administration. Management of the CAMS contract did improve; however, problems persist. Lack of clarity in the base contract, insufficient use of performance-based contracting, undocumented price and cost analyses, and inadequate training for bureau technical representatives are among noted persistent problems. Until the Department's financial management systems comply with Office of Management and Budget (OMB) requirements, CAMS will continue to warrant the close attention of senior Department officials and our office.

② Strengthen Department-Wide Information Security

Information security is vital to Commerce. The Department operates many complex computer systems that provide essential public services and support critical mission activities, such as provision of the nation's weather forecasting services, stewardship of the environment, and promotion of trade and economic growth, scientific research, and technological development. Weaknesses in information security throughout Commerce have prompted us to identify this problem as a top management challenge.

The Inspector General recently testified at a hearing before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, about Department-wide information security weaknesses based on the significant work in this area done by his office. At the same hearing, the General Accounting Office described its penetration testing of information systems and networks based in Commerce headquarters, noting pervasive weaknesses that place sensitive systems at serious risk. The Deputy Secretary of Commerce, at that same hearing, discussed information security improvements that the Department is undertaking.

It is important to note that under the Government Information Security Reform Act (GISRA), each federal agency must review its information security program annually, and each OIG must perform an annual independent evaluation of that review. Both of these assessments were to be included in the FY 2003 budget materials transmitted to OMB. Our first evaluation under the GISRA was based on OIG reviews and audits of information security issues conducted during the past two years.

We determined that the Department is striving to improve information security and make it an integral component of Commerce's business operations. Nevertheless, we concluded that because information security has not received adequate attention in the past—and because of rapidly changing technologies, capabilities, and concerns—substantial efforts are required to develop and oversee an effective security program.

We are conducting evaluations for next year's reporting under GISRA.

③ **Successfully Transition USPTO to a Performance-Oriented Organization**

The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office (USPTO) as a performance-oriented organization and gave it increased authority and control over its budget, expenditures, personnel processes, and procurement operations. To successfully make the transition to a performance-oriented organization, USPTO must meet several critical challenges.

- *Meeting staffing needs to handle increases in patent activity.* In 2001, USPTO experienced a 11.2 percent increase in patent applications over FY 2000. It hired 414 patent examiners to handle the increased workload but lost 263 through attrition.
- *Managing construction of new facility.* USPTO's five-building, 2.4 million-square-foot office complex in Alexandria, Virginia, is one of the largest real estate ventures the Federal Government has scheduled for this decade.

- *Maintaining state-of-the-art information technology capabilities.* Demands on USPTO's IT solutions, and its need to develop new and upgrade existing systems, are intensifying. OIG's evaluation of USPTO's search system found problems in the system development process. The USPTO management acted quickly to resolve many of these problems

As a performance-oriented organization, USPTO will have greater flexibility in designing incentive programs that attract and retain the highly skilled employees it requires. But USPTO will have to conscientiously monitor construction costs to stay within budget, and continually evaluate and improve its system development process to efficiently and economically deliver essential IT capabilities.

4 **Increase International Compliance with Trade Agreements and Expand Market Access for American Exporters**

To compete effectively in today's global marketplace, U.S. companies need help addressing unfair trade practices and violations of trade agreements, inadequate intellectual property protection, and other barriers to the export of U.S. goods and services. Commerce, through various International Trade Administration (ITA) offices, works with the Office of the U.S. Trade Representative, the Departments of State and Agriculture, and numerous other federal agencies to monitor and enforce trade agreements. ITA's approach to ensuring trade compliance and promoting market access is to solve problems quickly and at the lowest level possible—avoiding formal dispute settlement structures such as the World Trade Organization, where resolution can take years.

On the import side, unfair foreign pricing and government subsidies can disrupt the free flow of goods and adversely affect U.S. companies' global competitiveness. To address these problems, ITA works with the International Trade Commission to enforce the nation's antidumping and countervailing duty laws.

In January 2001, the Government Accounting Office (GAO) identified the monitoring and enforcement of trade agreements as major management issues for Commerce. Based on our ongoing work to date, we believe that a more coordinated federal effort is needed to improve compliance. We intend to review various aspects of ITA's approach to ensuring market access and trade compliance, as well as key import administration issues. In the meantime, ITA must work closely with other federal agencies and U.S. companies to identify trade compliance problems, develop workable solutions to them, and thus enhance U.S. firms' access to foreign markets.

5 Enhance Export Controls for Dual-Use Commodities

Given the importance of export controls to national security, especially in light of September 11, the adequacy of these controls is an ongoing concern. The licensing of dual-use commodities (goods and technologies with both military and civilian applications) is a balanced, multiagency collaboration among Commerce, Defense, Energy, State, Justice, and the Central Intelligence Agency—an attempt to bring divergent policy views and information to bear on the decision-making process. Commerce's authority is directed through the Bureau of Export Administration (BXA). Our assessments of BXA protocols identified significant improvements in export controls since 1993, but we also found weaknesses in licensing procedures.

First, commodity classification and jurisdiction processes are not timely and do not clearly specify the role of each agency. Second, the intelligence community does not review all dual-use export license applications or consistently conduct a comprehensive analysis of the applications it does review, and license applications are not screened against the U.S. Customs Service's database. Third, BXA has recurring problems with monitoring licenses that have reporting requirements. In addition, BXA needs to clarify licensing policy and regulations regarding the release of controlled technology/deemed exports to foreign nationals working in federal and private research facilities. The Bureau must also improve its management of the Commerce Control List of dual-use commodities and technologies.

The challenges for BXA, as well as for the Administration and the Congress, remain (1) passage of a new Export Administration Act, (2) targeting of federal licensing and enforcement efforts on those exports that present the greatest proliferation and national security risks, and (3) streamlining or elimination of controls that unnecessarily hamper trade. We will continue to closely monitor BXA's efforts to improve dual-use export controls through the annual reviews required by the National Defense Authorization Act.

6 Increase the Effectiveness of Fishery Management

The primary mission of NOAA's National Marine Fisheries Service (NMFS) is to protect and preserve living marine resources through scientific research, habitat conservation, fisheries management, and law enforcement. These measures are complex, challenging, and often controversial because they impose quotas on fishing that simultaneously affect the survival of a species and the economic health of the fishing industry and many coastal communities. NMFS is also responsible for the recovery of species protected under the Endangered Species Act of 1973, including anadromous species such as salmon. NMFS continues to play a central role in the Northwest Salmon Recovery Effort—a combined response by federal agencies, state and tribal governments, and other organizations to restore salmon runs in the Columbia River Basin.

We are currently assessing the NMFS Northwest Science Center's role in supporting the Salmon Recovery Effort and plan to review NMFS's stewardship role and related developments concerning the conservation of fisheries for which NMFS is responsible under the Magnuson-Stevens Act.

7 Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with GPRA

OIG has been involved with the Department's efforts to implement GPRA and has taken steps to help ensure the collection and reporting of accurate, appropriate, reliable, and relevant performance data to decision-makers. OIG has provided implementation advice and assistance, monitored the review of performance data in annual financial statements, provided informal comments to the Department on various GPRA-related documents, and audited internal controls for selected data on operating unit performance.

In June 2001, GAO reported that Commerce's FY 2000 Annual Program Performance Report and FY 2002 Performance Plan were significantly better than those of previous years.

However, GAO also noted that weaknesses in performance measurement processes make it difficult to determine whether Commerce is moving closer to achieving certain key goals.

Our ongoing audits of performance measurement and reporting at NIST and USPTO—like those conducted last year for BXA and NTIA—are intended to disclose ways to improve reporting and strengthen internal controls. To help guarantee that key performance measurement goals are achieved, we will continue to monitor Commerce's efforts to implement GPRA, provide advisory comments on GPRA-related documents, and, where resources permit, perform targeted reviews of GPRA-related issues.

8 Strengthen Financial Management Controls to Maintain a "Clean" Opinion on the Department's Consolidated Financial Statements

For its FY 2000 consolidated financial statements, the Department received its second unqualified (clean) opinion. Nevertheless, maintaining a clean opinion on consolidated statements remains a major challenge. Audits of the FY 2000 statements identified six material weaknesses (serious flaws in the design or operation of an internal control component that increase the risk of errors, fraud, or noncompliance), seven reportable conditions, and several instances of noncompliance with laws and regulations.

The Department recognizes the need for ongoing efforts to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations, and it continues to focus on strengthening financial management controls. Besides our own efforts, we have retained an independent certified public accounting firm to audit the Department's FY 2001 consolidated financial statements. We will discuss the findings of this audit in our March 2002 *Semiannual Report to the Congress*.

9 Successfully Implement Acquisition Reform Initiatives

As the Department increases its reliance on contractor-provided goods and services, at a cost of more than \$1 billion annually, its efforts to monitor the effectiveness of the acquisition process grow as well. Several laws were enacted during the 1990s to improve and streamline procurement practices. However, GAO and OMB's Office of Federal Procurement Policy, along with the OIG community, continue to report problems with agencies' implementation of reform initiatives. In recent reports, we identified problems of inadequate use of performance-based service contracting, the lack of security provisions in contracts for IT services, improper use of task order contracts, insufficient planning for contract administration and monitoring, and inadequate management of the purchase card program within the Department.

We also found, however, that Commerce is actively implementing a variety of reform initiatives. The Office of Acquisition Management has automated the procurement process, emphasized career development of contracting employees, and partnered with the Office of the Chief Information Officer and the budget office to integrate budgeting and planning for IT acquisitions. It has also taken steps to provide oversight and performance measurement of acquisition activities and launched a risk management program to monitor the effectiveness of the reform initiatives Department-wide.

Because each year the Department spends more than \$1 billion—about one-quarter of its appropriation—through large contracts and other procurement vehicles, we will continue to periodically assess the status of the Department's efforts to implement acquisition reform initiatives.

10 Ensure Effective Management of Major Facilities Renovation and Construction Projects

Effective renovation/construction management has been added as a critical challenge because of the numerous large, costly, and complex capital-improvement and construction projects being undertaken by Department units and the inherent risks involved in planning and managing such projects.

- NOAA has 16 major renovation and construction projects scheduled or under way.
- NIST has a multimillion-dollar program to maintain existing laboratories and construct a new one.
- USPTO's billion-dollar construction project will be one of the largest real estate ventures undertaken by the Federal Government in this decade.
- A study is being prepared on the modernization of Commerce's headquarters building in Washington, DC.
- The Census Bureau wants to renovate existing facilities and construct two new buildings at its headquarters in Suitland, Maryland.

Past OIG reviews of major renovation and construction ventures have demonstrated that up-front oversight—that is, close monitoring during planning and development—is essential. Detecting and addressing potential problems during the developmental stages rather than after a project's completion saves untold time and money.



Johnnie E. Frazier
Inspector General

January 31, 2002